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Issue of the Week: Inflation

October 6, 2023

What is the Issue?

Inflation Strains Consumer Spending Growth. Consumer spending has driven the remarkable economic growth we have seen this year. But there are signs consumers are starting to buckle under the weight of inflation.

Why is it important to business?

Consumers continue defying economic analysts' predictions that their spending ability was sapped. By the numbers:

- Inflation-adjusted spending was up 0.1%, essentially flat from July.
- Inflation-adjusted spending on goods was down 0.2% with spending on bigger-ticket durable goods down 0.3%.
- Spending on services rose 0.2% after inflation.

Be smart: While consumer spending was flat, consumer savings fell sharply in August. They have used credit cards and Covid-era savings to keep up with inflation, and their savings are likely depleted.

- August could be an aberration, but with inflation remaining higher than the Federal Reserve wants, we should watch how consumers keep ahead of it.

Bottom line: Inflation may have come down from 40-year highs, but it continues to weigh on consumers. It is critical that policymakers work to ease the burden of higher prices by avoiding overregulation, addressing the workforce shortage, and reducing tariffs.

Source: Curtis Dubay, Chief Economist, U.S. Chamber